MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2022/2023 (TERM 2215)

BEC1614 – MICROECONOMICS

(All sections/Groups)

19 DECEMBER 2022

9.00 A.M. – 12.00 P.M.

(3 Hours)

INSTRUCTIONS TO STUDENT

1. This question paper consists of 3 pages with 4 questions.
2. Attempt **ALL** QUESTIONS. The distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided.

QUESTION 1

(a) Based on the information provided, complete the following short-run costs in **Table 1.** (10 marks)

Table 1

Total product	Total fixed cost	Average fixed cost	Total variable cost	Average variable cost	Total cost	Marginal cost
0		-	$0	-		-
1				$12		$12
2				10		
3				12		
4		6		14		

(b) Discuss why the marginal cost curve for a firm is U-shaped. (9 marks)

(c) If diminishing returns did not occur, what would happen to the use of input of a firm's production? (6 marks)

(Total: 25 marks)

QUESTION 2

(a) Explain why is a monopolist a price maker? (5 marks)

(b) Draw a diagram of long run equilibrium for perfect competitive firm and monopoly firm each. Compare the efficiency of allocation of resources between the competitive firm and the monopoly firm at profit-maximizing output level. (20 marks)

(Total: 25 marks)

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QUESTION 3

(a) Draw a graph of the cost curves for a monopolistic competitive firm that illustrates the excess capacity arising in the long run. Explain why this excess capacity occurs. (10 marks)

(b) The following payoff matrix indicates the profit in millions of dollars for a duopoly based on a high-price or a low-price strategy.

		Firm X (A)	
		High-price	**Low-price**
Firm Y (B)	**High- price**	A = $200 B = $200	A = $400 B = $ 100
	Low-price	A = $100 B = $400	A = $150 B = $150

(i) Explain the outcome when each firm chooses a high-price strategy. (2 marks)

(ii) Explain the outcome when each firm chooses a low-price strategy. (2 marks)

(iii) Explain the outcome when Firm X chooses a low-price strategy while Firm Y maintains a high-price strategy. (4 marks)

(iv) Explain the outcome when Firm Y chooses a low-price strategy while Firm X maintains a high-price strategy. (4 marks)

(v) Make a conclusion about collusion in this game. (3 marks)

(Total: 25 marks)

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QUESTION 4

(a) Describe the legal barriers and natural barriers to entry in the monopoly market. (10 marks)

(b) Define perfect price discrimination. Do you think perfect price discrimination is efficient? Explain. (5 marks)

(c) Norman and Nordin own a perfectly competitive cabbage farm. They hire college students to help plant, cultivate, and harvest the cabbages with a wage rate of RM10 an hour. **Table 2** shows their marginal product schedule.

(i) Calculate the value of marginal product and determine the number of workers employed if the price of a kg of cabbages is RM2 and if the price of a kg of cabbages falls to RM1. (5 marks)

(ii) What happens to Norman and Nordin's demand for labor curve when the price of a kg of cabbages falls. (5 marks)

Table 2

Quantity of labor (workers)	Marginal product (pounds per hour)	Value of marginal product, RM2 per kg (ringgit)	Value of marginal product, RM1 per kg (ringgit)
1	8		
2	10		
3	7		
4	5		
5	4		

(Total: 25 marks)

End of Paper